

**SCHOOL OF BUSINESS AND ECONOMICS**

**DEPARTMENT OF COMMERCE**

**FINAL EXAM: MAY SEMESTER 2018**

**CODE: BUS 309 A UNIT: BUSINESS FINANCE**

**Instructions: Answer any THREE questions Time: 2.5 Hours,**

**QUESTION ONE**

You are given the following sample information for Ex Ltd;

* Average debtors 800,000
* Sales for the year 13,500,000
* 30% of sales are on cash basis
* Cost of sales are 6,360,000
* Other expenses are 80% of the cost of sales
* The company does not retain any profits but distributes everything as dividends
* The total assets are 5 million with current assets being 60% of the total assets and current liabilities being held at 1,345,000
* The company has 1 million shares

Required:

1. Income statement summary
2. Debtors turnover
3. Average Collection Period
4. Dividends per share
5. Gross profit margin
6. Net profit margin
7. Dividends per share
8. Current ratio
9. Total Assets Turnover
10. Dividends per share (20 marks)

Explain five weaknesses of ratios as a tool for financial statement analysis (10 marks)

**QUESTION TWO**

1. List five type of financial intermediaries (5 marks)
2. Distinguish between money markets and capital markets (5 marks)
3. List seven key roles of financial intermediaries in the economy (7 marks)
4. Discuss eight role of stock exchange market in the economy (8 marks)
5. Explain five roles of Capital Markets Authority in the economy (5 marks)

**QUESTION THREE**

Cornucopia Inc. is planning to invest $ 206,000 in a new garden product that is expected to generate additional sales of 8,000 units at $ 24 each. The $ 206,000 investment includes $ 46,000 for initial launch-related expenses and $ 160,000 for equipment that has a 15-year life and a $10,000 residual value. Selling expenses related to the new product are expected to be 5% of sales revenue. The cost to manufacture the product includes the following per unit costs:

Direct labor $ 5.00

Direct materials 8.25

Fixed factor overhead-depreciation 1.25

Variable factor overhead 1.50

**Total $ 16.00**

1. Determine the net cash flows for the first year of the project, years 2-14, and for the last year of the project. (10 marks)
2. Determine the Net Present Value (NPV) of the project. (10 marks)
3. Explain five key steps involved in capital investment decisions (10 marks)

**Required:**

* 1. Determine which project should be favored, comparing the net present values of the two projects and assuming a minimum rate of return of 15% assuming no taxes. (15 marks)
  2. Briefly explain five methods that are used in the evaluation of investment projects. (15 marks)

**QUESTION FOUR**

A company has annual credit sales of Kshs 10 million and Kshs 800,000 average debtors balance. The company is considering using debtors to secure needed funds. The pledging agreement specifies that 25% reserve be deducted from debtor’s balance. The annual interest rate is 14% charged on the amount less debtor’s requirement and is deductible in advance.

**Required:**

1. Average collection period (5 marks)
2. Debtors turn over (5 marks)
3. Effective periodic cost. (8 marks)
4. Distinguish between factoring and pledging of Account receivable finance (2 marks)
5. Explain five factors that a financial institution will consider before agreeing to debtors finance. (10 marks)